

HOUSING MARKET OUTLOOK

Vancouver and Abbotsford CMAs



CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights¹

- New home construction will remain above the five-year average level in 2016 and 2017 as builders start new projects to meet population-based demand and spillover demand from a listings-constrained resale environment.
- The number of MLS^{®2} sales transactions in 2016 is forecast to be similar to last year's elevated level before returning to a more sustainable pace in 2017.
- The average MLS[®] price will continue on its upward trajectory in 2016, based on strong first quarter home price growth, and a larger share of sales over \$1million.

Figure 1



Source: CMHC, (F): Forecast

¹ The forecasts and historical data included in this document reflect information available as of April 29, 2016.

² MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA).

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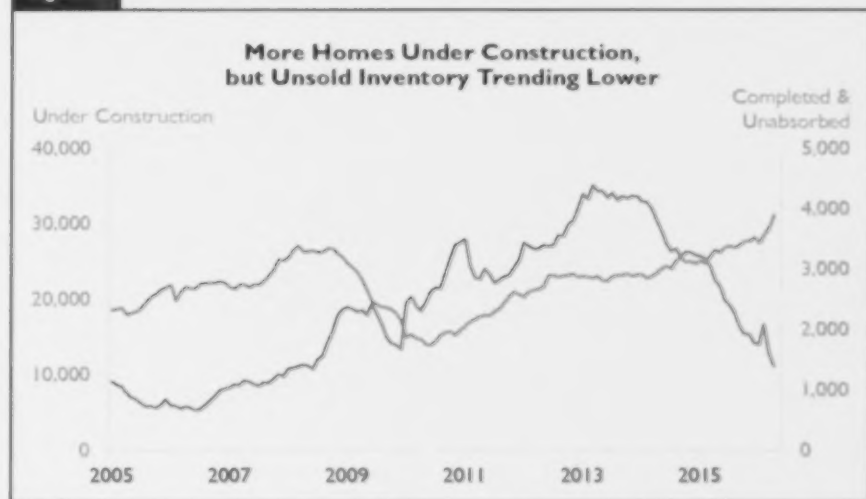
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- Market conditions will remain in seller's territory, but as more listings are added and sales taper off, more balanced market conditions are expected in most areas of Greater Vancouver and will temper price appreciation in 2017.
- Rental vacancy rates will remain low and stable, prompting higher rent levels this year and next.
- Job growth and population growth will support demand for both new and resale housing, as well as rental accommodation over the forecast horizon.

Home Starts to Remain Elevated

Home building in the Vancouver Census Metropolitan Area (CMA) is expected surpass the previous year's activity in 2016, before declining slightly in 2017. However starts will remain above the five-year average level of just over 19,000 units in both years, ranging from 24,200 and 25,400 units in 2016 and from 21,200 to 23,000 units in 2017. Population-based demand will keep housing starts at high levels

Figure 2



Source: CMHC Starts and Completions and Market Absorption Surveys.

as builders start new projects to meet demand from a projected 16,000 to 18,000 new households added to the region each year (Figure 1). A scarce supply of resale home listings, which will take some time to increase, will also add to demand for new homes as some buyers turn to the new home market to satisfy their needs, especially since the gap between new and resale home prices has narrowed¹.

Strong economic and demographic factors combined with active local housing markets will generate demand for new homes and support above-average levels of residential construction in 2016 and 2017. More than 7,000 new homes were started in the first quarter of 2016, a 65 per cent increase over the same period in 2015. Both single-detached and multi-family home starts increased substantially in the first quarter, by 25 per cent and 88 per cent, respectively. As a result of a several years in which starts were consistently between 18,000 to 20,000 units, the number of homes under construction has risen steadily since 2014. In spite of this increase in construction, standing inventories of unsold new homes trended lower during the same period, reflecting robust new home sales (absorptions) (Figure 2). In the first quarter of 2016, nearly two-thirds of single-detached houses and more than eight in ten new condo apartment units were absorbed upon completion.

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of

economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

¹ During 2012-2014, median new detached home prices were on average nearly \$155,000 higher than median resale detached home prices. During 2015 and the first quarter of 2016, this gap shrunk to an average of approximately \$26,000, with resale prices overtaking new home prices in the last two quarters.

Single-detached home building is expected to remain elevated across the CMA through the forecast period. Strong demand for single-detached homes by those who have built up equity in their home over the years and by high net worth buyers, both foreign and domestic, will drive high levels of detached house building. An aging housing stock and rising land values will continue to promote replacement housing in land constrained centres close to the core and in suburban locations, alike. Suburban and Fraser Valley communities will also add to the stock through larger-scale developments. Laneway housing will also add to single-detached starts. While a handful of cities (Maple Ridge/Pitt Meadows, Richmond, Surrey, Coquitlam and Vancouver) accounted for nearly three-quarters of all detached home starts in the region during the first quarter of 2016, the areas that registered the largest increase compared to the same period last year were suburban locales such as New Westminster, North Burnaby and North Vancouver. First quarter absorptions (sales) were strong in most areas, increasing 22 per cent overall. In Maple Ridge/Pitt Meadows, Richmond and White Rock, more than twice as many houses sold, compared to a year earlier.

Multi-family starts will increase in response to demand for lower priced homes and the lifestyle attributes of condo and town home living. Demand for ground-oriented, family housing in suburban and Fraser Valley municipalities such as Surrey, Langley and Maple Ridge/Pitt Meadows will continue to drive most town house building in the region. On a smaller scale, town house construction will increase, as zoning allows, in more central locations

Figure 3



Source: CREAA, (1); CMHC Forecast

providing a relatively affordable, ground-oriented alternative to detached homes. First quarter town home starts were up 51 per cent in response to several quarters of steady absorptions. Condominium apartment construction will continue to be concentrated in and around the core and central suburbs of the CMA. The condo apartment sector has lead the way both in terms of the pace of increase in new construction, with starts up 54 per cent in the first quarter of 2016, and in terms of the increase in absorptions – up 125 per cent. As a result, unsold inventories of new condo apartments will remain low and prices will trend higher.

Greater Vancouver⁴ Resale Market Expected to Normalize

Following a record quarter, MLS® sales are expected to gradually return to levels more in line with economic and demographic fundamentals. MLS® sales are forecast to remain

between 42,000 and 45,000 units in 2016 and dip to 34,000 to 38,100 units in 2017 (Figure 3). Sales will remain above the five-year average level of almost 33,000 sales in both forecast years, based on strong job and population growth.

Sales increases have outpaced increases in the number of new listings added to the market since early 2015, steadily shrinking the supply of active listings (Figure 4). Supply and demand conditions, as reflected in the sales-to-active listings ratio, shifted to seller's market conditions in the spring of 2015, and as of the first quarter of 2016, were bordering on being classified as accelerating. While market conditions in virtually all areas of Greater Vancouver favour sellers, suburban areas are not quite as listings-constrained as areas closer to the core including the cities of Richmond, Burnaby and Vancouver and the North Shore. These latter communities have strong multicultural profiles and a wide range of features

⁴ This section deals with the resale market in the Real Estate Board of Greater Vancouver area. This area does not include Surrey, Langley, White Rock, or North Delta. Please see the Fraser Valley resale section for commentary on these communities as well as the Abbotsford Mission CMA.

Figure 4



Source: Real Estate Board of Greater Vancouver (REBGV), calculations by CMHC

important to home buyers, including proximity to the airport, public transit and transportation routes, entertainment and recreation, as well as employment opportunities.

The current imbalance between sales and listings is expected to unwind during the next 18 months as sales levels moderate and more listings are added. The steep increases in resale home prices that have resulted from sustained seller's market conditions are anticipated to draw more listings onto the market. Historically, listings activity ramps up in response to rising prices, however, unusually strong demand for homes and a depleted stock of listings, particularly in central areas, have delayed this response (Figure 5). The scarce supply of listings and competitive market may make some potential home sellers hesitant to list their homes if they are unsure that they will be able to find their next home within the region. However, others, particularly those looking to relocate to another region, may see this as an opportunity to benefit from high home prices, adding to the stock of listings.

Both single-detached and multi-family home sales are expected to remain strong in 2016, driven by the needs of diverse buyer groups. The most affordable ownership option, condominium apartments, will continue to appeal to first-time home buyers and repeat buyers with limited equity in their current home.

The widening differential between single-detached and multi-family home prices may also attract retirees or other down-sizers looking to release equity from their current house and move into a town home or apartment. Single-detached homes, particularly those in central locations, will continue to attract high net worth buyers, both local and off-shore, and those who have built up significant equity in their home from sustained annual price gains. First quarter 2016 condominium apartment sales grew at a faster pace (40 per cent) than single-detached home transactions (30 per cent) at the same time that the number of new apartment listings declined and house listings increased.

An expected increase in listings coupled with the return of sales to levels in line with population and employment growth, will result in more moderate price growth later this year and in 2017. The average MLS® price in Greater Vancouver increased 26 per cent, year-over-year, in the first quarter of 2016. A shift in the price distribution of sales has

Figure 5



Source: CREA

Figure 6



Source: CREA, (F): CMHC Forecast

contributed to higher average prices. Overall, 36 per cent of the homes sold in the first quarter of 2016 were priced over \$1 million compared to 27 per cent in the fourth quarter of 2015. Average detached home prices increased by 31 per cent while town home prices increased 23 per cent and apartment condo prices were up 18 per cent, compared to the first quarter of 2015. The average MLS® resale price is projected to be between \$1.022 million and \$1.128 million in 2016 and from \$1.045 million to \$1.179 million in 2017 (Figure 6).

In most areas of Greater Vancouver, detached home price growth will continue to outpace growth in multi-family home prices. The March 2016 detached home Benchmark MLS® price grew at a faster pace than condo apartment Benchmark prices in almost all areas. However, the gap between the pace of price growth is narrowing, particularly in the City of Vancouver and in West Vancouver, where the pace of apartment price growth has surpassed single-detached home price growth. However, in most

suburban areas, house prices continued to climb at more than twice the rate of apartment condo prices.

Stable Vancouver CMA Rental Market

Rental vacancy rates in the Vancouver CMA are expected to remain low and stable through the forecast period as

a growing population and employment base support demand for rental accommodation. High ownership housing costs will also mean that some potential buyers will need to stay in rental housing longer to accumulate their down payment. The average vacancy rate is forecast to remain unchanged from last year at 0.8 per cent in 2016, before edging higher to one per cent in 2017.

Rental housing with condominium housing features such as concierge service, in-suite laundry, and fitness facilities, is in greater demand as renters seek more affordable housing services from the rental housing stock. Rents for these units are on average higher than their purpose-built counterparts. Newer purpose-built rental apartments tend to have higher rents and compete with investor-owned condominiums for tenants at the higher end of the rental market. Although it still accounts for a relatively small share of all new construction, rental building has been trending higher for several years (Figure 7), with first quarter rental apartment starts up 62 per cent. Builders will continue to respond to

Figure 7



Source: CMHC

demand for new rental units, however high land prices will constrain rental starts.

Economic and Demographic Factors Underpin Demand for Housing

Positive fundamentals in the Vancouver CMA, including employment and population growth and low mortgage rates, are expected to reinforce housing demand this year and next. Vancouver's population grew by more than 28,000 in 2015. As Canada's third most populous CMA, employment opportunities, local lifestyles and diverse cultures will continue to draw people to the region over the next two years, adding approximately 70,000 residents to the population. This growth in population will heighten demand for housing, health care and education, increase the labour force, and help to further expand the local economy. As a result of population growth, an estimated 35,000 new households will be added to the region and require housing during 2016 and 2017⁵.

Employment in the wholesale and retail trade and health care and social assistance industries make up over a quarter of total employment in the Vancouver CMA. In the first quarter of 2016, the health care and social assistance sectors combined with manufacturing, and the information and culture industry, which includes film production, recorded a net addition of more than 50,000 jobs compared to a year ago. With a growing population and a weaker

Canadian dollar relative to the US dollar, strength in these industries will likely persist over the next couple of years, supporting job creation in the CMA. Overall, employment is expected to grow almost 3 per cent annually this year and next.

A growing population base, relatively low Canadian dollar and higher employment will contribute to an increase in consumer spending – both by local residents and tourists. With the lower loonie and Vancouver's proximity to the US border, the rise in American tourists to the region is anticipated to extend into the forecast horizon. International tourists entering Canada through British Columbia increased by 1.2 million people in 2015 and recorded double digit growth, year-over-year, in January and February 2016⁶. Vancouver's scenic location, temperate climate and popular ski resorts also attract Canadian tourists opting to vacation domestically given less favourable exchange rates. Elevated levels of tourism will fuel growth in the local accommodation and food services industry, the fifth largest employer in the Vancouver CMA.

Approximately 80 major projects totalling an estimated \$15.2 billion including transportation infrastructure, LNG facilities, port and harbour facilities, commercial and institutional building construction, are projected to begin over the next two years. Residential building construction constitutes almost half of the major projects which will create jobs in construction and support demand for housing.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

⁵ BC Statistics, PE-O.P.L.E. 2015 Household projections.

⁶ Statistics Canada CANSIM Table 427 0004

Forecast risks

There are a number of risks to the outlook on the upside and downside that contribute to uncertainty in the outlook.

- The increase in new and existing home prices may raise the incidence of highly indebted households which will be more vulnerable in the event of unemployment or an increase in mortgage interest rates.
- A sharper-than-expected slowdown in economic growth in China would negatively affect Canada through weaker demand for Canadian exports as well as downward pressure on commodity prices. This could lead to starts, sales and home prices in the lower part of the forecast range.
- On a positive note, a stronger US dollar and growing US economy could boost tourism and export-related industries across British Columbia, stimulating growth in tourism, retail, and manufacturing-based employment that would feed through to housing demand.
- CMHC's Housing Market Assessment (HMA) framework detects strong evidence of overvaluation in Vancouver, primarily due to high prices for single family homes. A strong local economy is expected to continue to support demand for housing and price growth. However, if the economy underperforms expectations, there is a risk that the imbalances identified in the HMA could unwind and exacerbate the impact of these weaker than expected economic conditions. This could cause housing market activity and prices to be in the bottom end of the forecast range.

Wide Range Forecasts

Overall, the outlook for the Vancouver housing market is for higher levels of sales, prices and starts in 2016, with some levelling off in 2017. However, there is a degree of uncertainty around the outlook which increases as we look further into the future. This topic box explores some of the possible situations that could lead to outcomes within the wider range presented in Figures 1, 3 and 6.

While economic fundamentals such as job and population growth are strong in Vancouver, there is evidence of imbalances in the resale market have emerged over the past year. According to CMHC's Housing Market Assessment (HMA) framework, there is evidence that overvaluation is detected in the Vancouver housing market. The potential easing of the imbalance between observed house prices and those that would be supported by underlying fundamentals could

impact the forecast and result in outcomes in the lower part of the forecast range. Alternatively, in the absence of a shock to trigger this scenario, the province's largest housing market would see levels of starts, sales and prices in the upper part of the wide ranges. While the HMA still points to weak evidence of overheating and problematic price acceleration in the Vancouver CMA, recent quarterly activity warrants close monitoring of these indicators.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

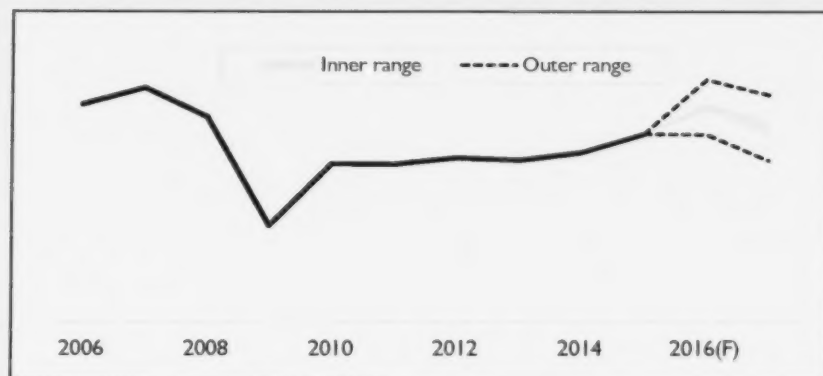
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a

specific set of assumptions for the market conditions and underlying economic fundamentals.

- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of

historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

Key Factors and their Effects on the Housing Sector

Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Interest rates are expected to gradually start rising from current levels in the first half of 2017, becoming less accommodative for housing demand.
Population	Population growth through immigration and inter-provincial migration will continue over the next couple of years, adding to demand for housing.
Employment	Employment in the region is expected to continue leading the province, and generating ownership and rental housing demand.
Income	Real average weekly earnings rose 2 per cent from 2014 to 2015. A higher level of income will provide some support for housing demand.
Resale Market	The current imbalance between sales and listings is expected to unwind over the next 18 months as sales moderate and more listings are added.
Supply of New Completed and Unabsorbed Units	New housing absorption levels will remain high, keeping the inventory of unsold new units in check.
Absorbed New Units	Favourable employment conditions and steady growth in the number of new households will support high absorption rates for all home types in the CMA.

Forecast Summary Vancouver CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	4,004	4,374	4,622	4,900	5,100	4,500	4,900
Multiples	14,692	14,838	16,241	19,500	20,100	17,000	17,800
Starts - Total	18,696	19,212	20,863	24,200	25,400	21,200	23,000
Resale Market							
MLS® Sales	28,985	33,693	43,145	42,000	45,000	34,000	38,100
MLS® Average Price(\$)	767,765	812,653	902,801	1,022,000	1,128,000	1,045,100	1,179,000
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	1.7	1.0	0.8	0.8	1.0
Two-bedroom Average Rent (October)(\$)	1,281	1,311	1,368	1,410	1,450
One-bedroom Average Rent (October)(\$)	1,005	1,038	1,079	1,110	1,140
Economic Overview					
Population	2,438,730	2,475,736	2,504,340	2,539,800	2,576,300
Annual Employment Level	1,247,600	1,276,300	1,298,500	133,500	137,400

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

This table presents resale data and forecasts for the Real Estate Board of Greater Vancouver (REBGV) area. This area does not include Surrey - Langley - White Rock or North Delta which are part of the Vancouver CMA but not within the REBGV boundaries.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2016-2017).

Abbotsford-Mission CMA Highlights⁷

- Housing starts will increase above the 10-year average in 2016 and 2017.
- Expect record high levels of MLS[®] resales in both the Abbotsford-Mission CMA and Fraser Valley centres in 2016.
- Stable employment and population growth to support higher levels of housing starts and MLS[®] resales.
- Demand for purpose built rental units will remain high in the CMA.

Housing Starts Will Trend Higher in the Abbotsford-Mission CMA

Elevated demand for new homes will continue to drive new construction in the Abbotsford-Mission CMA. After a strong rebound in 2015 that had total housing starts increase by over 60 per cent, housing starts will continue to trend upward, ranging from 920 to 980 units in 2016 before edging down between 890 and 990 units in 2017. Total housing starts in both 2016 and 2017 in the CMA are expected to be higher than the 10-year average level of 742 units.

Single-detached housing starts during the forecast period will be at levels similar to those before the economic and financial downturn in 2009. Single-detached housing starts in 2016 are expected to range from 405 to 455 homes. Lower prices and tight land supply compared to neighbouring

centres in the Vancouver CMA will be drivers for new single-detached home construction in the area. The range will move lower in 2017 as expected increases in mortgage rates and higher new home prices lowers buyer demand. Single-detached housing starts in 2017 will range from 365 to 435 units.

A pick-up in new multiple-family construction is expected during the forecast period in the Abbotsford-Mission CMA with starts in the range of 480 to 560 units in 2016 and from 495 to 585 units in 2017. The demand for townhomes will remain steady, especially from buyers who find it difficult to get into the single-detached market. For young families or mobile retirees, townhomes provide a ground-oriented⁸ alternative with more indoor living space on average than apartment units as well as personal space similar to single-detached homes, such as private garages and a small yard for outdoor uses.

Construction of new apartment units is expected to increase during the forecast period. Rising levels of newly completed and unabsorbed apartment condominium units in the CMA may dampen apartment condominium starts, however strong demand for rental accommodations, as indicated by the vacancy rate dropping from 3.1 per cent in October 2014 to 0.8 per cent in October 2015, has piqued interest among builders. Strong rental demand may also spark an increase in investors looking to purchase newer apartment condominium units for rental

purposes. CMHC's apartment condominium surveys show that the average rent is usually higher for apartment condominiums than purpose built apartment units⁹.

Record MLS[®] Resales Expected in 2016

MLS[®] resales in the Abbotsford-Mission CMA are expected to rise to record levels as low mortgage rates, steady labour markets and positive migration underpin buyer demand. MLS[®] resales will fall in the range of 3,950 to 4,060 units in 2016. The gradual increase in mortgage rates forecast for 2017 will slightly cool-off buyer demand, with MLS[®] resales between the ranges of 3,750 to 4,050 units in 2017.

Even though sales are expected to increase for all dwelling types during the forecast period, buyer preference in the resale market will continue to favour single-detached houses in the Abbotsford-Mission CMA. The main appeal of single-detached houses is relative price, as both Abbotsford City and Mission have the lowest home prices compared to other centres that make-up the Fraser Valley Real Estate Board (Figure 8). Lower prices in the CMA are attractive to buyers in neighbouring centres in the Fraser Valley as well as to people relocating to the region for other personal and financial reasons.

Another source of demand for single-detached homes may come from move-up buyers in the area. Unlike centres near the Vancouver core, lower price spreads between single-detached houses and multiple-

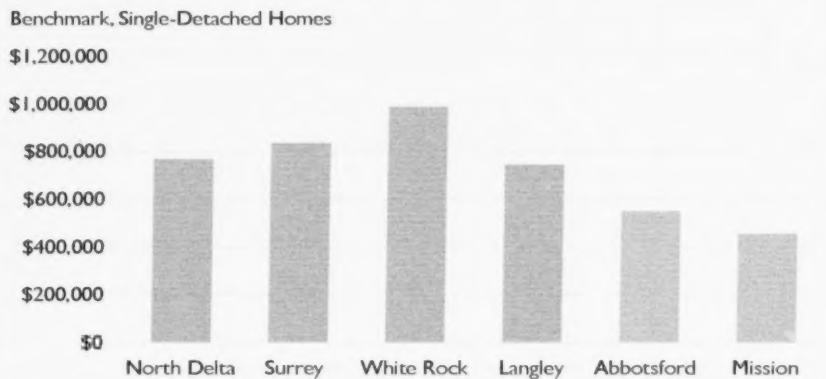
⁷ The forecasts included in this document are based on information available as of April 29, 2016.

⁸ Ground-oriented style homes refer to homes that have a ground level entrance. Single-detached, semi-detached and townhomes would be considered ground oriented homes.

⁹ CMHC's Condo Vacancy surveys in the Vancouver CMA and Victoria CMA indicate that condo rents are higher on average than those charged for purpose built apartment units.

Figure 8

Single-Detached Benchmark Prices in Abbotsford City and Mission Lowest in the Fraser Valley, March 2016



Source: Fraser Valley Real Estate Board

family homes may allow buyers to transfer their equity gains from the sale of their townhome or apartment towards the purchase of a house¹⁰. Due to low mortgage rates, buyers may be able to use this equity to help purchase a single-detached house while keeping their monthly mortgage payments at a manageable level.

MLS® resales of attached units are expected to strongly increase during the forecast period as townhomes provide buyers a lower-priced option compared to single-detached houses. Average prices for townhomes in the CMA can be over \$200,000 less than single-detached houses, making them attractive to both first-time homebuyers and people looking to downsize from their single-detached house, such as newly mobile retirees. This group of people over the age of 65 will make up the highest growth age cohort, both in terms of the

absolute number and the rate of growth within the Abbotsford-Mission CMA during the next two years¹¹.

A surge in MLS® apartment resales is expected over the next couple of years in the CMA. With benchmark prices in the CMA at the low end of all areas in the Lower Mainland, buying opportunities exists for first-time buyers, especially given that favourable mortgage rates are expected to continue during the forecast period. Retirees are also expected to buy into the apartment condominium market, especially those who can downsize and maximize the equity gains from the sale of their existing homes.

The demand for ground-oriented homes, which are priced on average higher than apartment condominiums, will be a main driver of higher homes prices in the Abbotsford-Mission CMA.

Another driver will be sustained sellers' market conditions in the area. At the end of the first quarter of 2016, there were 691 active listings in the CMA, 39 per cent lower than the same time last year, and just over half the five-year average level of active listings. With a low supply of listings, demand will keep the market in sellers' conditions despite an expected increase in the number of new listings in the next two years. Average prices in the CMA are expected to range from \$401,400 to \$410,600 in 2016 and between \$417,400 and \$434,600 in 2017.

Higher Sales and Prices Forecast in the Fraser Valley

Job and population growth, along with low mortgage rates will support higher MLS® resales in the Fraser Valley Real Estate Board area with sales expected to reach record levels in 2016, ranging from 22,100 to 23,700 transactions (Table 1). Though a wider range in MLS® resales is forecast in 2017, a cooling-off is expected due to higher mortgage rates.

The centres outside of Abbotsford City and Mission in the Fraser Valley Real Estate Board are expected to surpass last year's sales totals¹². Along with the supporting external factors mentioned, the Fraser Valley provides an option for buyers who may be priced-out of the Greater Vancouver market, especially for single-detached homes. Lower prices compared to centres in Greater Vancouver will be one of the main reasons why single-detached homes will continue to lead sales in the

¹⁰ At the end of March 2016, the benchmark price spread for a single-detached house and townhome in Abbotsford City was \$205,700 and in Mission the difference was \$311,500. This spread is lower than the \$396,700 recorded for all centres that make up the Fraser Valley Real Estate Board area.

¹¹ Taken from BC Stats' P.E.O.P.L.E 2015, combined Abbotsford and Mission, growth rates for people over the age of 65 in the next two years is 3.2 per cent or 223 people.

¹² Remaining centres include North Delta, Surrey, Langley and White Rock.

**Table 1. Forecast Summary
Fraser Valley MLS® Resale Market
Spring 2016**

	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
MLS® Sales	12,895	15,017	20,055	22,100	23,700	20,200	24,600
MLS® Average Price(\$)	490,433	517,718	577,507	630,200	707,800	657,700	738,700

Fraser Valley compared to multiple-family homes¹³. Also, there is the general attraction of living in the Fraser Valley, especially with the creation of new jobs in the area and amenities available for young families.

Strong sellers' conditions will increase MLS® home prices in the Fraser Valley over the next two years. Demand is expected to outpace supply, limiting listings, or choice, among buyers in the market place and adding upward pressure on home prices. The expected range in 2016 for home prices in the Fraser Valley is \$630,200 to \$707,800 followed by upward movement in the range to \$657,700 to \$738,700 in 2017. Price increases will be led by Fraser Valley centres located in the Vancouver CMA, such as South Surrey/White Rock and North Delta.

Strong Demand Keeps Vacancy Rates Low

Vacancy rates for purpose built rental units will increase but remain low in the Abbotsford-Mission CMA. Supported by high migration levels and job growth, vacancy rates declined from 3.1 per cent in October 2014 to 0.8 per cent in October 2015. With employment in the CMA expected to contract slightly in 2016, as well as more people moving into homeownership, the vacancy rate is expected to rise slightly in 2016 to one per cent. Vacancy rates are expected to increase further to 1.2 per cent in 2017 as solid fundamentals draw people away from the rental market into homeownership. Despite the increase, vacancy rates are still historically low and forecast to be at levels similar to 1992¹⁴, when the vacancy went to 1.5 per cent for purpose built apartment units.

A tightening of the rental market in 2015 allowed property owners to increase rents 2.9 per cent on average over the previous year's levels. The last time the same-sample rent increased by two per cent was in 2009. With vacancy rates expected to remain low during the forecast period, rent levels for purpose-built apartments will continue to be elevated. One factor that may help increase rent levels is tenant turnover of rental units during the year. CMHC will track tenant turnover of units in the 2016 Rental Market Survey and capture a turnover rate in the Abbotsford-Mission CMA¹⁵. This rate might help to explain an increase in rents that is higher than the annual allowable limit set by the Residential Tenancy Branch of British Columbia.

¹³ Historically, the largest number of sales are for single detached homes in the Fraser Valley, outpacing townhomes and apartment condominiums combined. One reason is pricing. The benchmark price of a single detached house in March 2016 was \$1,342,900 from the Real Estate Board of Greater Vancouver compared to \$739,200 for the Fraser Valley Real Estate Board.

¹⁴ Market and demographic fundamentals were stronger as the CMA was in a period of higher population change and entering an era where mortgage rates were relatively low.

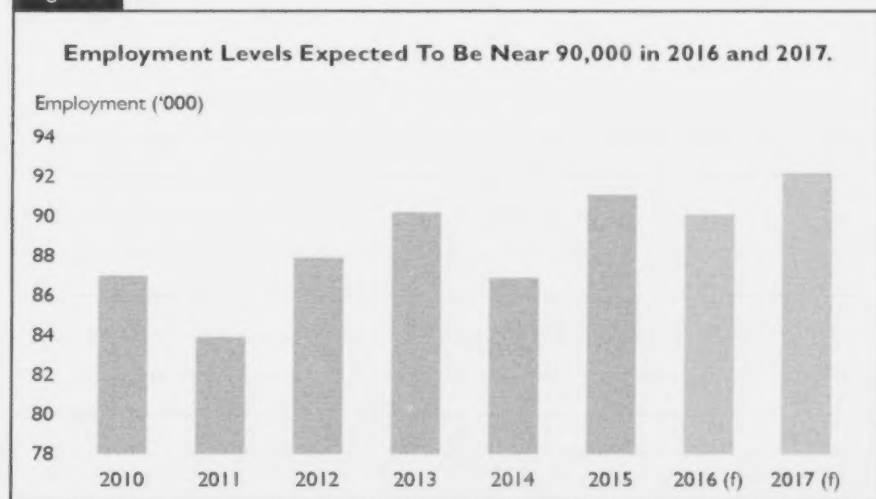
¹⁵ The turnover rate is defined by the number of times a unit is occupied by new residents over the past 12 months. This includes tenants that moved into different units in the same building during this time period. A pilot project was conducted in the Vancouver CMA in October 2015 and the results can be found in (<https://www03.cmhc.schl.gc.ca/catalog/product/detail.cfm/cat=193&itm=9&lang=en&fr=1462553159429>)

Employment Levels Cool in 2016, Population Increases

After leading all CMAs in British Columbia in employment growth in 2015, the labour market will cool slightly in 2016 before increasing again in 2017. Job growth grew by 4.8 per cent in 2015 over 2014 levels, fueled by strong increases in the manufacturing sector and non-commercial services, such as public administration and health care. In 2016, total employment is expected to shrink by one per cent as a pull-back is expected in a number of industries that saw increases in 2015, especially in the service sector such as transportation and warehousing and wholesale trade. Overall, the job market is expected to support housing demand in the CMA as employment levels are forecast to be near 90,000 over the next two years.

Housing demand will continue to be supported by population growth in the Abbotsford-Mission CMA. Part of the population will come from intraprovincial migration as both old and young age cohorts look to the Abbotsford-Mission CMA as a destination to retire or for job opportunities in centres in or around the CMA. Not only will the increase in population support homeownership, but also the rental market. The number of people between the ages of 20 to 29, the primary rental age, is projected to reach its highest total of 25,695 by 2017¹⁶.

Figure 9



Source: Statistics Canada, Labour Force

¹⁶ BC Stats PE.O.P.L.E 2015, population projections estimates and projections for Abbotsford-Mission CMA.

Trends at a glance

Key Factors and their Effects on the Housing Sector	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Interest rates are expected to gradually start rising from current levels in the first half of 2017, becoming less accommodative for housing demand.
Population	Population growth through immigration and intraprovincial migration will continue over the next couple of years, supporting demand for homeownership and rental housing.
Employment	Employment levels to be at 90,000 and above, supporting housing demand.
Income	Real average weekly earnings rose 2 per cent from 2014 to 2015. A higher level of income will provide some support for housing demand.
Resale Market	Lower prices, steady employment levels and low mortgage rates will support buyer demand. Expect the sales of single-detached houses and townhomes to lead the way in sales as prices are lower in comparison to other centres in the Fraser Valley.
Supply of New Completed and Unabsorbed Units	Demand for new ground-oriented homes remains high with inventory levels trending down. Sales of new apartment condominiums will remain sluggish but may pick up, particularly if prices for ground-oriented homes become too high and there is strong rental demand.
Absorbed New Units	Favourable economic conditions will continue to support high absorption rates for single-detached houses and townhomes.

Forecast Risks

The outlook for the Abbotsford-Mission CMA is based on assumptions about a number of economic fundamentals to predict the most likely outcomes. The forecast can be impacted by unforeseen changes to the input variables, or by over or under estimating the impact of changes on the outlook. The following is a description of potential impacts to the outlook regarding housing starts, MLS® resales and prices.

Housing Starts:

There is a potential for housing starts move in the upper part of the outer range as Abbotsford City will be approving a new Official Community Plan during the forecast period. Among a number of amendments, the plan will emphasize establishing higher density developments in urban centres, which could boost

Figure 10



Source: CMHC, (F): Forecast

housing starts. Further if economic fundamentals continue to support buyer demand, large community projects that have been put on hiatus in both Abbotsford City and Mission,

may begin construction. The result would increase housing starts for all dwelling types.

MLS® Resales:

Increases in mortgage rates may have more of an impact on buyers sensitive to rate increases, resulting in MLS® resales coming in at the lower end of the range of the outlook in all centres in the Fraser Valley. This group would include first-time buyers and repeat buyers who want to use equity gains to purchase their new homes. A scenario of total MLS® resales moving to the lower range may also be due to a low supply of active listings within the real estate market. Active listings have been on the decline throughout 2015 and into the first quarter of 2016. Even though sellers may be confident their homes will sell, many may be discouraged in finding a new home in an environment of rising prices and fewer days on market, leading to lower listings.

MLS® Average Prices:

Despite the higher demand for single-detached houses, price levels may be out of the range of potential home buyers, resulting in buyers shifting to more modest priced homes in the CMA, such as apartments. If this was to occur, a scenario similar to the period before the economic downturn in 2009 may occur, where the share of apartments sales rose, and this compositional shift resulted in lower overall home price growth in the region.

Figure 11



Source: CREAA, (I); CMHC Forecast

Figure 12



Source: CREAA, (I); CMHC Forecast

Forecast Summary Abbotsford-Mission CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	201	251	393	400	460	360	440
Multiples	548	248	413	480	560	500	580
Starts - Total	749	499	806	920	980	890	990
Resale Market							
MLS® Sales	2,393	2,592	3,482	3,950	4,060	3,750	4,050
MLS® Average Price(\$)	338,770	353,683	379,916	401,400	410,600	417,400	434,600
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	3.2	3.1	0.8	1.0	1.2
Two-bedroom Average Rent (October)(\$)	820	835	864	895	915
One-bedroom Average Rent (October)(\$)	676	684	712	735	755
Economic Overview					
Population	178,493	180,977	183,522	185,700	188,000
Annual Employment Level	90,200	86,900	91,100	90,200	92,200

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2016-2017).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October *Rental Market Survey* (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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